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keeping CURRENT

Issues '98

June 1998

Securing the Value of the Federal Columbia River Power System

How will the region secure and enhance the value of the Columbia River for our future? That's something that will be substantially determined by a set of decisions to be made about the Bonneville Power Administration in the coming months. These decisions are being made in a number of venues, both within the region and in Congress. At stake is whether and in what ways the region will be able to retain the benefits of the great Columbia River power system for the Northwest as envisioned by the four Northwest governors' in their Comprehensive Review of the Northwest Energy System. Because issues concerning BPA go to the heart of a resource that is so fundamental to the region, BPA wants to have a conversation with the citizens of the Northwest and invite you to participate in a process that will clarify the importance and relationship of these issues in our future.

The purpose of this *Keeping Current* is to introduce you to the important issues that must be decided by the Northwest as a region and to describe how you can be involved. The need for making timely decisions is driven by a rapidly changing electricity marketplace.

Passage of the Energy Policy Act of 1992 brought deregulation to the wholesale electricity generation industry, including BPA. This and the accompanying federal and state initiatives have brought intense competition along with new rules, new policies, new players in the market and new ways of doing business. BPA must succeed in this highly competitive marketplace if it is to have sufficient revenues to fund its mission of public service. This mission ranges from providing the Northwest with low-cost power and reliable transmission to funding regional programs for fish and wildlife, energy conservation and development of renewable resources.

With a system as large and complex as the Northwest electrical power and transmission system, we do not have the luxury of tackling one issue at a time. Instead, BPA is working with stakeholders on a number of issues in many separate forums. Some of these forums are run by others, where they, not the BPA administrator, will be the ultimate decision makers. While each issue has its own independent life, the resulting decisions collectively will shape the BPA that enters the 21st century. We expect this BPA

to play an important role in both the region's natural resources and its economy.

Why Issues '98

Until now, it has been difficult to see all of these issues in one place at one time. Few people have the time to track the issues in the variety of forums in which they are being addressed. That's why BPA is providing you with a unique opportunity that will allow you to see and comment on any or all of the issues in a single forum. This forum is a process called Issues '98, and it will be available to you through any one of a series of public meetings listed on page 10. You do not have to attend a meeting. You can write or call for more detailed information and submit written comments if you choose. We will take comment through June 26, 1998.

Issues '98 is designed to give you an overview and a context for major policy issues surrounding BPA's future. Your input will help BPA develop planning assumptions for our next power and transmission rate cases. The focus of Issues '98 is on the five years beginning in October 2001 and running through

September 2006 (this describes federal fiscal years 2002-2006). The majority of BPA's current power sales contracts end in 2001, which is the reason for concentrating on the immediate period that follows.



BPA plans to begin signing up power customers this summer for the period covering fiscal years 2002-2006. We had an excellent response to a limited amount of power that was recently made available for test marketing and to accommodate customers who needed to pin down a power supply for this period as soon as possible. Not only was all of the power sold, but customer interest greatly exceeded BPA's limit for these advance power sales. Issues '98 will help BPA launch the marketing and sale of its full power inventory (in a process called "subscription") by giving you an opportunity for an early review of the draft planning assumptions for product features, costs, risks, pricing and cost recovery contingencies.

With one exception, Issues '98 is not itself a vehicle for final decision making. Indeed, BPA is not the final decider in several important matters. Many of the decisions will be made by regional parties participating in a Transition Board set up by the Northwest governors to oversee implementation of recommendations of a Comprehensive Review of the Northwest energy system (see [next section](#) for fuller explanation), in the Three Sovereigns process (representing states, tribes and federal governments), in the Northwest Power Planning Council, or in consultations on endangered salmon led by the National Marine Fisheries Service. In areas that require legislation, Congress will make the ultimate decisions.

Our intent is to inform you, the public, of the larger context of these individual decisions and to gather public input that will inform the decision makers in their various forums. The one exception is recommendations made by a Cost Review panel to help BPA manage its costs and increase its efficiency. This is the final opportunity for you to comment on BPA's proposal for implementing the Cost Review recommendations.

The Northwest Approach to Change

The foundation that was laid for much of the change that lies ahead for BPA in a year-long Comprehensive Review of the Northwest Energy System convened in 1996 by the governors of Oregon, Washington, Idaho and Montana. The governors were responding to electricity industry restructuring on the national level, and they wanted to ensure that the Northwest shapes its own destiny rather than getting swept up in a national tide of change that could ignore the Northwest's situation. Issues '98 supports the Comprehensive Review objectives, which were to:

- Align the benefits and risks of access to existing federal power;
- Ensure repayment of the debt to the U.S. Treasury and third-party creditors; and
- Retain the long-term benefits of the system for the region, while being consistent with the emerging competitive markets and regional transmission solutions.


Following conclusion of the Comprehensive Review, the governors set up a Transition Board to oversee implementation of the review's recommendations. BPA is working closely with this board to put in place those recommendations that do not require legislation. BPA also is working with the board to define which issues may require legislative changes to implement. Issues '98 is designed to help you understand the range of issues before BPA, including the major uncertainties and inherent risks that grow out of these uncertainties.

The Key Issues

To help you understand and comment during Issues '98, BPA has prepared five fact sheets that cover the broad categories of issues that bear on the future of the Federal Columbia River Power System. The five broad categories include: (1) [Cost Management](#); (2) [Future Fish and Wildlife Funding](#); (3) [Power Markets, Revenues and Subscription](#); (4) [Transmission Issues](#); and (5) [Risk Management](#).

What follows is a brief description of what you will find in each fact sheet. Keep in mind that the fact sheets are far more detailed and specific than these summaries, so if you are interested in any or all of these subjects, we urge you to [order the fact sheets](#).

Cost Review of the Federal Columbia River Power System	
	Recommendation #1 Further reduce staffing and support costs of power marketing and other Power Business Line functions not directly related to operation of the Federal power system.
	Recommendation #2 Fund regional conservation market transformation at a level proportional to the

	percent of the regional firm load served by Bonneville. Carry out a review of the need for, and the appropriateness of, continued Bonneville support beyond the 10-year life establish in Comprehensive Review.
	Recommendation #3 Reduce projection of legacy conservation contract and staffing expenses. Allow Bonneville to extend low-income weatherization contracts with the states to be consistent with the end of the legacy contract commitments to the utilities.
	Recommendation #4 Further reduce staffing/funding for Northwest Power Planning Council.
	Recommendation #5 Renewable resource projects: new projects beyond those currently committed must be supported by incremental revenues that cover the additional costs.
	Recommendation #6 Develop/implement a consolidated/integrated capital/asset management strategy for the FCRPS, including transmission.
	Recommendation #7 WNP-2: Reduce operating costs. Price closer to market.
	Recommendation #8 Reduce Administrative and Other Internal Support Service Costs.
	Recommendation #9 Obtain legislation to improve administrative effectiveness and efficiency.
	Recommendations #10/11 Conform BPA transmission costs to Federal Power Act (FPA). Reduce transmission overhead costs.
	Recommendation #12 Further reduce federal and non-federal debt service.
	Recommendation #13 Account for previously identified "undistributed reductions."

Fact Sheet #1: Cost Management

Last year, BPA and the Northwest Power Planning Council jointly sponsored a review of BPA's costs. The objective was to ensure our costs remain as low as possible, consistent with sound business practices. If customers are confident that we are doing all we can to manage our costs, they are more likely to subscribe to BPA power. A strong subscription to federal power is the best insurance that we will have sufficient revenues to meet our obligations to creditors, including the U.S. Treasury, and to our public service mission.

The Cost Review drew on the expertise of five executives who had distinguished experience in managing large organizations undergoing major change. The panel addressed all BPA costs, except fish and wildlife, which is being addressed in another forum. The Cost Review panel made 13 recommendations (*each described in the [fact sheet](#)*) designed to keep federal power competitive and attractive to customers. Although the recommendations are advisory, BPA is targeting the full annual savings of \$146 million recommended by the panel. This is a "stretch" goal for us since some recommendations may require legislation. For example, to capture \$10 million of the savings, BPA will need new statutory authority in the areas of personnel, procurement and property management. Other recommendations will require coordinated decisions with other federal agencies such as the U.S. Army Corps of Engineers and the Bureau of Reclamation. The focus is on costs in the 2002-2006 period.

In Issues '98, BPA is taking public comment on our plan to implement the recommendations of the Cost Review. Following this process, the BPA administrator will make a final decision on our

implementation plan. We welcome your comments on the validity of our draft assumptions and proposed implementation, as well as on the recommendations themselves.

Fact Sheet #2: Future Fish and Wildlife Funding

One of BPA's fundamental responsibilities under the Northwest Power Act is to provide funds to "protect, mitigate and enhance" fish and wildlife resources in the Columbia River Basin. We are committed to meeting this obligation as well as our responsibilities under the Endangered Species Act. Currently, we are working with the region toward two fish and wildlife funding objectives for the 2002-2006 period: (1) identifying the range of costs that could become BPA's funding obligation; and (2) developing a financial strategy that can handle the risk of our experiencing the higher end of the range.



At the moment, there is not yet consensus on what measures should be taken for fish and wildlife beginning in 2002. Until a decision is made, likely in 1999 or later, our goal is to keep options open for fish and wildlife needs, but at the same time to work toward assuring

purchasers of BPA power reasonable stability of BPA's costs and rates in the subscription period.

The essential elements of BPA's approach to keeping the options open for fish and wildlife funding are to:

- Play an active role in the public process that is addressing the issue of what measures should be taken and encourage others to participate.
- Acknowledge that future fish and wildlife financial impacts may span a wide range.
- Provide assurances that BPA will meet its fish and wildlife obligations, recognizing that, in some circumstances, BPA's Treasury payments could be at risk.
- Work with regional stakeholders to ensure that estimates of future costs represent solid value for the dollar and are based on good science.
- Put a financial risk management strategy in place that will: (1) preserve BPA's ability to cover the full range of its potential 2002-2006 fish and wildlife obligations; (2) provide a high level of assurance that BPA will meet all of its obligations, including its fish and wildlife obligations and Treasury payments; and (3) position BPA to earn significant net revenues in the 2002-2006 period if market prices are high. This will give BPA the financial strength to meet its post-2006 funding obligations. (*See the [Risk Management fact sheet](#) for a description of BPA's approach and framework for risk management.*)

Here again, we invite your comments. With your help, we are confident that we can do both – provide for the needs of our fish and wildlife resources and continue to provide the low-cost and reliable power that has been so critical to the region's economy.

Fact Sheet #3: Power Markets, Revenues and Subscription

In just six years, changes in the wholesale electricity market – including deregulation, increases in West

Coast surplus generating capacity and historically low natural gas prices – have created a different world for marketing electrical power. Customers that traditionally made up a stable market base for BPA now can choose from among a variety of power suppliers and a variety of products. This means BPA's rates must be competitive, and our products must be tailored to individual customer needs. One thing is clear – BPA no longer can simply raise rates to cover any cost.

Subscription

BPA supplies about 40 percent of the Northwest's electricity. We are a wholesale power provider, and our customers include public utilities, public entities such as local governments and irrigation districts, investor-owned utilities, certain large industries, and power marketers and brokers.

In the future, BPA will sell much of its power in a "subscription process," which was laid out by the Comprehensive Review. This process defines how and to whom the region's federal power should be sold in order to keep the benefits in the region and keep beneficiaries aligned with the costs.

The Comprehensive Review recommended that BPA offer its firm power according to its customer base. Thus, public preference customers would constitute phase one; while phase two would include direct-service industries and investor-owned utilities' residential loads. Phases three and four would include other regional customers and customers outside the region. BPA plans to begin subscription this summer.

There is a possibility that subscription requests could exceed BPA's firm power supply. BPA estimates its subscription inventory for 2002 to 2006 will be slightly above 6,400 average megawatts, while subscription requests theoretically could reach 9,700 average megawatts. The Comprehensive Review recommended an allocation scheme to handle an over-subscription situation, and BPA is discussing how that could be implemented. BPA also could add to its inventory by purchasing power. The question then becomes how to direct the additional costs to the additional over-subscribers, which is what the Comprehensive Review recommended in such situations.

Markets

Although BPA sells long-term power at cost, we dispose of surplus firm and nonfirm power in markets that can be quite volatile, and we accept a market price there. The short-term markets generally fetch lower prices than the long-term, but short-term revenues are very important to BPA's hydro system which can produce several thousand megawatts of nonfirm power in good water years.

The challenges of setting rates and estimating revenue potential are described in the Power Markets, Revenues and Subscription fact sheet. Our risk analysis of this and other uncertainties is described in the Risk Management fact sheet.

Fact Sheet #4: Transmission Issues

Some Comprehensive Review recommendations would require changes in law to implement, particularly in the transmission area. The Transition Board, set up to oversee implementation of these recommendations, is developing legislation that would change BPA's transmission function. Its goal is to have a transmission system that is regulated by the Federal Energy Regulatory Commission under much the same requirements that apply to investor-owned utilities.

Two national trends are driving change. First, competition in power markets is creating demand for

more uniform transmission services and tariffs. This could lead to greater oversight of all transmission, including BPA's, by the Federal Energy Regulatory Commission. It also could lead to turning over operational control of transmission to independent system operators, or turning over ownership to transmission companies that do not own or control power generation. Second, primarily large industrial consumers are demanding that mandatory reliability standards replace the existing voluntary standards.

The Northwest likely will find itself needing to stay in step with national movements. Any change would have a direct effect on BPA transmission, since we provide about 80 percent of the Northwest's high-voltage transmission capacity. BPA has already voluntarily



complied with the Federal Energy Regulatory Commission's open access directives. But further changes are expected that could bring our transmission rates, terms and conditions into line with national practices. A key issue is whether and how BPA's transmission system should be brought under the Federal Power Act (*see the section [Issues for Potential Legislation](#)*).

These and other changes would mean some level of cost shifts for BPA customers. Even without legislation to bring BPA's transmission under the Federal Power Act, the strict separation of the generation and transmission functions that already has occurred at BPA has significant implications for the next power ratemaking and the next transmission ratemaking. We want you to have a voice in the future role of our transmission system in light of these new national trends that are reshaping our industry.

Fact Sheet #5: Risk Management

Risk is not new to BPA; it is an inherent part of doing business, and it is present whenever there is uncertainty. But any time there is major change, there are new uncertainties and thus new risks to manage. Managing risk means taking a realistic look at how likely it is that certain unpredictable events will occur and then developing a strategy to be prepared in case these events do occur. It also means looking for trade-offs so that, ideally, taking a greater risk in one area is likely to reduce the risk in another area.

A key principle of BPA's risk management framework is to manage our risks through a comprehensive plan. This involves identifying the full range of uncertainties associated with all of BPA's revenues and costs, and then establishing a set of mechanisms – or tools – to effectively manage these risks. The adequacy of these tools is measured by how likely we are to meet our Treasury payment – our annual principal and interest payment on the federal investment in the facilities of the Federal Columbia River Power System. This is called the “Treasury payment probability.” Since by law the Treasury is our last creditor in line, our ability to meet this obligation each fiscal year has proven to be an effective barometer of our financial health. Our planning objective for the 2002-2006 rate period is a one-year Treasury payment probability of 97.5 percent each year, or 88 percent for the entire five-year period.

Significant uncertainties BPA and the region face include:

- **Hydro conditions:** The amount of power BPA has to sell directly depends on the available water supply.
- **Market prices:** Will market prices trend downward, remain about the same or go up? This

question defines the uncertainty of the deregulated electricity market.

- **Reducing Costs:** BPA has adopted virtually all of the Cost Review's recommendations. Many of these are "stretch goals" for BPA. The agency has set its targets for the maximum savings suggested by the Cost Review but, at the same time, must acknowledge the risk that not all of the targeted savings may be captured.
- **Fish and wildlife obligations:** A portion of BPA's revenues is used to finance fish and wildlife recovery measures within the Columbia River Basin. Representatives from state and tribal governments, federal and state agencies, environmental groups, utilities, industry associations and public interest groups have worked to look at the range of possible future fish and wildlife costs for this period. Decisions on what measures should be implemented still lie in the future, and some will not be known until at least December 1999.
- **Other uncertainties:** There are other uncertainties associated with the Residential Exchange Program, litigation over the terminated Tenaska project, BPA transmission costs (see fact sheet on Transmission Issues), and the coming introduction of competition at the retail level and further regulatory changes at both state and national levels.

Managing uncertainties

We are working to manage uncertainty by developing a set of risk management tools. These tools range from planned net revenues for risk – a kind of self-insurance policy – to an emergency cost recovery mechanism in the event power revenues are not sufficient to cover costs. We encourage you to check out this fact sheet if this is an area of interest for you. The fact sheet also will provide you with a series of risk analysis scenarios for the 2002-2006 period. Are there factors we have overlooked? Are we gauging risk correctly? Are there additional or better ways to manage these risks?

Issues for Potential Legislation

There is little question that there will be national legislation to restructure the electricity industry. Several bills are before Congress, and the Administration also is preparing to introduce a bill. Because the Northwest electrical power system is unique in the U.S. – it is the only one based on hydropower, for example – it requires its own unique legislative approach. For this reason, the governors' Transition Board is developing recommendations that would constitute a Northwest Chapter for national legislation. The board hopes to have its legislative package to the Northwest governors by July. Two key legislative issues the Transition Board is addressing include application of the Federal Power Act to BPA's transmission, and emergency cost recovery for the power side of the business. These are described more fully below.

Federal Power Act Conformance

Such legislation would formally subject BPA's transmission to many of the same rules that apply to investor-owned utilities with respect to ratemaking, transmission access and Federal Energy Regulatory Commission approval of transmission contracts. This could change rate structures and almost certainly would create cost shifts. A critical question will be how such changes can be made while minimizing

rate impacts and taking into account BPA's unique responsibilities. (See [fact sheet](#) on *Transmission Issues*.)



Emergency Cost Recovery

BPA believes a mechanism is needed to reduce the likelihood of our missing a Treasury payment if our power revenues prove inadequate to cover our power costs. This could include borrowing with interest from the transmission business or some other mechanism. Missing a Treasury payment could fuel attempts from outside the region to lay claim to

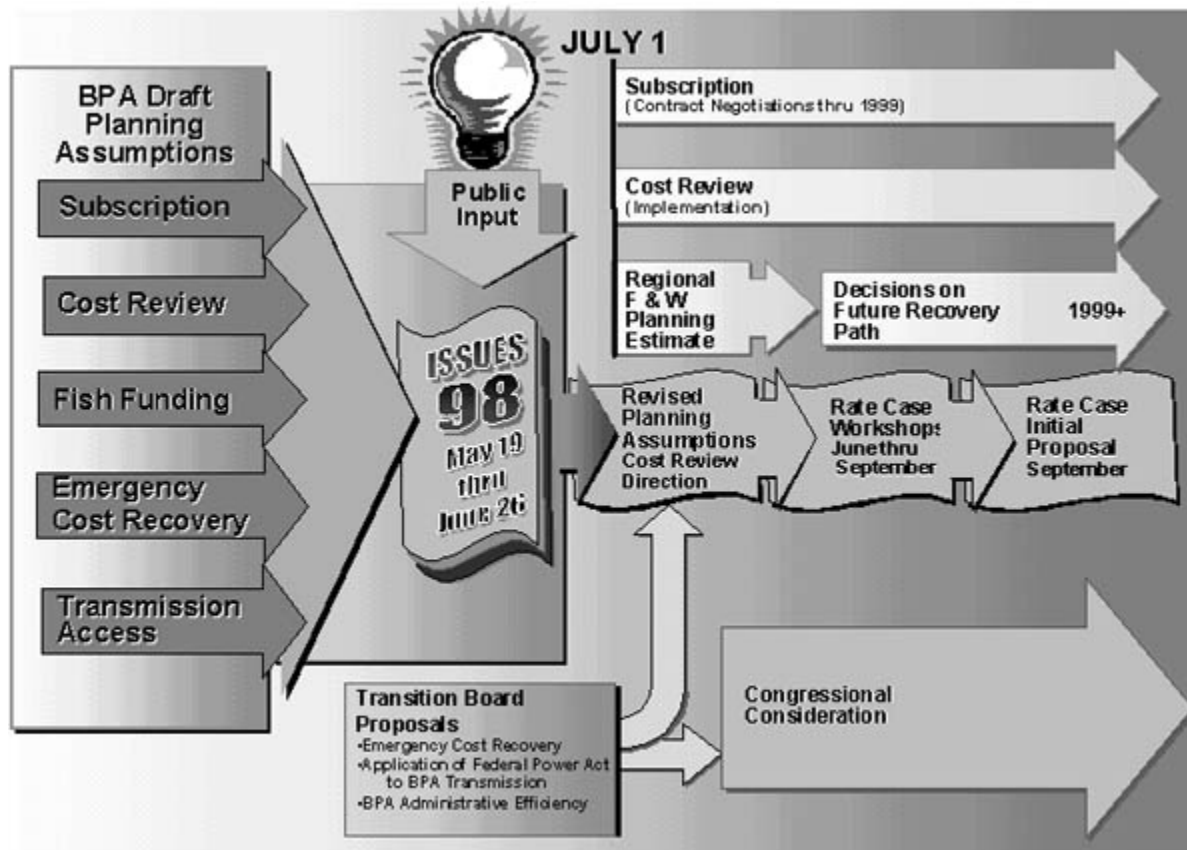
the Columbia River System's benefits. (If we are not shouldering the costs, can we hold regional claim to the benefits?) While the risk that BPA may not be able to cover its costs is low in most future scenarios, it is still a possibility. Precipitating factors could include unusually low market prices, higher than expected costs or poor water conditions. (See [fact sheet](#) on *Risk Management*.)

The Issues '98 Process -- How You Can Get Involved

Issues '98 is not just about BPA. It is about the future of a great Northwest resource, the federal Columbia River hydro system. Will we be able to preserve its benefits for the Northwest now and for our children and their children? Is our planning sound? Are there issues or ideas that we have missed? In short, we want your input. To this end, BPA is planning three public meetings on Issues '98 to invite your participation in the process. Here is the schedule:

May 19, 1998		Public comment period begins.
June 11, 1998	1-5 p.m.	Doubletree Hotel-Spokane City Center, 322 N. Spokane Falls Court, Spokane, Wash.
June 12, 1998	1-5 p.m.	Radisson Hotel-Seattle Airport, 17001 Pacific Highway South, Seattle, Wash.
June 22, 1998	1-5 p.m.	BPA, Rates Hearing Room, 911 N.E. 11th Ave., Second Floor, Portland, Ore.
June 26, 1998		Public comment period closes.

Issues '98 Timeline and Related Processes



Ordering the Fact Sheets

To prepare for these meetings, request any or all of the fact sheets which have been described in this *Keeping Current*. Call BPA at 1-800-622-4519.

[Fact Sheet #1: Cost Management](#)

[Fact Sheet #2: Future Fish and Wildlife Funding](#)

[Fact Sheet #3: Power Markets, Revenues and Subscription](#)

[Fact Sheet #4: Transmission Issues](#)

[Fact Sheet #5: Risk Management](#)

[Fact Sheet #6: The Region Speaks: Summing Up Issues '98](#)

[Fact Sheet #7: BPA Targets Cost Savings: Close-out on Cost Review Recommendations](#)

[Fact Sheet #8: Cost Management Implementation Plan](#)

[Fact Sheet #9: Public Comment Analysis](#)

How to Comment

BPA welcomes and encourages your comments and suggestions. You do not need to attend a meeting to provide comments. Send written comments on Issues '98 to BPA at the following address: Bonneville Power Administration, P.O. Box 12999, Portland, OR 97232.

Or, you may E-mail your comments to comment@bpa.gov, or use the comment form on the BPA Web site. To get there go to the [BPA home page](#) and click on the button "How to Contact Us," or key in the following Web address: http://www.bpa.gov/support/info_request.html. Choose the selection "Comments about BPA Projects," and then type in your comments.

If you would like to talk to someone about Issues '98, contact a BPA account executive or call BPA at 1-800-622-4519.

This *keeping Current* was created by BPA Corporate Communications.
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